POLYETHYLENE RETAIL CARRIER BAGS FROM INDONESIA, TAIWAN, AND VIETNAM

INVESTIGATION NOS. 701-TA-462 AND 731-TA-1156-1158 (FINAL)

HEARING BEFORE THE INTERNATIONAL TRADE COMMISSION

MARCH 16, 2010

STATEMENT OF MARK DANIELS

Good morning. My name is Mark Daniels. I am the Vice President of Marketing and Environmental Affairs for Hilex Poly Co. LLC. In that capacity, I have executive level sales responsibility for all of Hilex's products, including PRCBs. Additionally, I am involved in the legislative arena surrounding PRCBs in the United States as the Chairman of the Progressive Bag Affiliates – our industry association. I have a degree in Business Administration from Villanova University.

Hilex is an industry leading manufacturer of plastic bag and film products. We are based in Hartsville, South Carolina. We have eight manufacturing facilities that make PRCBs, which are strategically located across the United States. Additionally, we have a packaging films plant and the first plant in the United States devoted to recycling used plastic bags and wraps. Hilex is the largest producer of PRCBs in the United States, and we believe that we are the largest manufacturer of PRCBs in the world.

All of the PRCBs that we produce and sell are die cut handle bags. While we focus on T-shirt style bags, we also produce other styles of die cut handle bags, which are called merchandise bags and header bags. This **Foot Locker** bag is a sample T-shirt bag, this **Toys R Us** bag is a merchandise bag, and this **Taco Bell** bag is a header bag. We produce all three styles of bags on the same production lines using the same employees. We simply change the die configurations on the bag converting machines.

In late 2003, Hilex entered the plastic bag and film business with the purchase of the high density film products division of Sonoco Products Co. In the fall of 2005, Hilex purchased Vanguard Plastics, Inc., which was one of the country's largest makers of PRCBs. I joined Hilex from Vanguard, where I served as Director of Marketing and General Manager of Vanguard's Packaging Films Division.

One of the things that made Vanguard attractive to Hilex was that the performance of Vanguard's PRCB business had improved substantially as a result of the antidumping orders against imported PRCBs from China, Malaysia, and Thailand that were put in place in mid-2004. Since that acquisition, however, we have seen the benefits of those orders dissipate because imports have surged from Indonesia, Taiwan, and Vietnam.

From 2006 to 2008, dumped imports from Vietnam, Indonesia and Taiwan and subsidized imports from Vietnam jumped by 114 percent in units and 188 percent in value. Their surge is explained by one and only one reason: the imports were priced lower than comparable domestic products. These unfairly traded imports more than doubled their share of the U.S. market in just three years. The only way to explain that doubling of market share is the fact that imports from these countries undercut our prices, and by substantial margins.

Had we not filed this petition in March of last year, there is no doubt in my mind that imports from these countries would have continued to increase at the same rate. They certainly have the capacity and the motivation to continue penetrating the U.S. market.

In 2008, Hilex sent representatives to six factories in Indonesia and six factories in Vietnam to assess their PRCB capacity and their pricing of PRCBs. We were alarmed by what we found. There was tremendous existing capacity in both countries. Capacity was rapidly expanding in Vietnam. We learned that Fotai Vietnam had the greatest capacity in Vietnam, and it said that it would double its existing capacity within a year. As shown on **Slide 3**, this expansion will provide Fotai with the capacity to manufacture in excess of 20 billion bags, enough to supply 20% of the US market. As explained in our Prehearing Brief, Fotai is legally bound to export 80% of its production of PRCB's.

We also learned that capacity was expanding in Indonesia. One of the Indonesian companies that Hilex visited was Super Exim. At Exhibit 1 to its Prehearing Brief, Super Exim has submitted some email correspondence between Hilex and Super Exim regarding Hilex's exploratory trip to Indonesia in 2008. Super Exim, however, failed to supply two emails that demonstrate the increasing capacity in Indonesia. As shown on **Slide 4,** on May 2, 2008, Super Exim told us it would increase its capacity from 1,200 metric tons to 4,000 metric tons per month. or by 233 percent, at the end of 2008. As shown on **Slide 5**, on September 25, 2008 Super Exim confirmed that the expansion was well under way. When finished, Super Exim's capacity will exceed 8 billion bags per year, assuming 13 pounds per 1000 bags. This represents an additional 8 percent of apparent U.S. consumption.

U.S. importers and large retailers were quick to take advantage of multiple foreign producers with increasing capacity in the subject countries who were trying to increase their sales to the United States by offering low prices. Prior to the filing of the petition, U.S. importers and purchasers were shifting their sourcing to Indonesia, Taiwan, and Vietnam to obtain lower prices and to avoid the duties imposed against China, Malaysia, and Thailand. The tremendous growth in reverse internet auctions and internet bidding events provided easy and unfettered access for importers to submit very low prices for PRCBs. This was extremely disappointing to Hilex, since we had hoped that the antidumping duties would allow us to regain the market share we lost to imports from those countries. Instead, market share was shifting to Indonesia, Taiwan, and Vietnam.

Although this import surge severely harmed our business operations in numerous ways, perhaps the clearest manifestation of the harm that Hilex has suffered is the fact that we have been forced to close three of our production facilities since 2007. In February 2007, we closed our Rancho Cucamonga, California plant. In January 2008, we closed our Victoria, Texas plant. In October 2008, we closed our Mount Olive, North Carolina plant. Each of these plants was dedicated to the production of a wide range of PRCBs as defined in these investigations. As we have detailed in confidential submissions, each of these plants had large bag-making capacity and employed a significant number of employees. These plants were important employers and contributors to the tax base in their small communities. Now they are gone, and all of these workers lost their jobs.

But even this large reduction in capacity did not enable us to align our capacity with demand. Our reduction in capacity was matched by an equivalent drop in our sales and production, due to the surge in imports from the subject countries. That left us with as much excess capacity as we had before we closed the three plants.

This is a major problem because our facilities, like those of Superbag, are designed to operate continuously. As Commission staff can appreciate from their tour of our Richmond Plant, the film extrusion process cannot economically be shut down at night and restarted in the morning. The plant is designed to operate 24/7. The equipment cannot be switched on and off without sacrificing a significant amount of raw materials. For this reason, we ordinarily close only for 4 or 5 days surrounding Christmas. Our plants are designed to run 360 days a year. But during the period of investigation, we were forced to shut down operations on many occasions other than normal holiday shutdowns.

In the first quarter of 2008, we were forced to close our Victoria Falls, TX plant and also cut production by 25% across our remaining plants for two months. We had to do this in an effort to rectify the supply – demand imbalance caused by dramatic increase in imports from Vietnam, Indonesia, and Taiwan from early 2006 through the end of 2007. This made our operations run less efficiently, and drove up our unit costs.

During the last several years, we came under increasing pressure to match extremely low import prices so that we could retain business and operate more efficiently. Our only way to compete with these imports is price, because purchasing decisions are overwhelmingly driven by price. Orders are won or lost for a price difference of one percent. But when we reduce our prices to retain business, we suffer lower margins.

When we lose a customer to unfairly priced imports, the foreign producer becomes the incumbent supplier. It is hard to get that business back unless we undercut the foreign producer's prices. Some customers are simply too important to lose because their volume and strategic value is critical to our operations.

The unfairly priced imports also prevented us from raising our prices to keep pace with escalating operating costs. The surge in imports from Indonesia, Taiwan, and Vietnam subjected us to a severe cost/price squeeze, especially in 2008. The filing of the petition has alleviated that cost/price squeeze, allowing profits to improve in interim 2009.

Thus, meeting the low import price was not and is not a strategy that we can employ very often. So in many cases, we decided that we could not do that and, as a result, lost the business. You can see the consequences of our inability to match the import prices in our questionnaire response. Our production fell sharply and our shipments fell sharply. Our profitability deteriorated significantly. The only reason for this is that we lost sales to imports from the countries under investigation and lowered our prices to meet the import prices. We suffered lower gross margins due to the lower prices resulting from an oversupplied market.

Finally, let me talk about what the future will look like if we do not receive relief from unfair trade as a result of these cases. We value our employees and the communities where we have invested. We want to maintain our U.S. production assets. But our questionnaire response shows you that our financial performance has been very weak. If that situation continues, it is inevitable that we will be forced to consider closing additional facilities, which would cause even more harm to our workforce and the communities where they live.

The threat to Hilex's U.S. plants and employees from increasing imports is greater now than at any time I can remember. In the past, we were always optimistic that PRCB consumption would continue to increase in tandem with increasing population and retail sales. That is no longer the case. Even as the U.S. economy is rebounding, we project that demand for PRCBs will be flat at best. As indicated in the Commission's Prehearing Report at Table II-5, many industry participants expect the passage of laws regulating the use and disposal of PRCBs and believe such laws will have a downward influence on demand for PRCBs. Even if onerous laws do not pass, large retailers like Walmart are actively promoting alternative packaging, such as the so-called "reusable bags," to reduce PRCB consumption and generate income through new product sales. Our concern, however, about a shrinking or stagnant market is far exceeded by our fear that we will be competing for a share of that market in the face of increasing subject imports. That is something we cannot likely endure.

In conclusion, just as the industry needed your help in 2004, we need it again today. Hilex has world class manufacturing facilities. Our highly automated state of the art equipment allows us to be highly cost-competitive. Our primary raw material input is a global commodity, the same input used by our competitors in the subject countries. We have a highly skilled and loyal workforce. We should have been profitable during 2006 to 2008 and been able to at least maintain existing capacity. We cannot, however, compete with the unfairly low prices of dumped and subsidized imports that take away our sales and production and force us to lower our prices on remaining sales. Please restore fair competition to the U.S. market.

Thank you.

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